

**REPORT TO
THE CONGRESS OF THE UNITED STATES**

**REVIEW OF THE EXPEDITED SIGNING
OF CERTAIN AGREEMENTS
UNDER TITLE I
OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT
OF 1954
(commonly known as Public Law 480)**

**DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF AGRICULTURE**



**BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES**

APRIL 1966

UNITED STATES GOVERNMENT

Memorandum

Handwritten signature: W. D. Austin
Handwritten initials: WDA

TO : Mr. Herbert J. Waters, AA/MR, 4942 NS

DATE: April 22, 1966

FROM : *Handwritten: Gus N. Hofan*
William D. Austin, G/AUD, 424 SA-1

SUBJECT: Comptroller General's Published Report to Congress on "Review of Expedited Signing of Certain Agreements Under Title I of the Agricultural Trade Development and Assistance Act of 1954 (commonly known as Public Law 480)

Attached are five copies of the subject report for your review and comment pursuant to the requirements of M.O. 312.1, Section VIII, as revised January 28, 1965. The report was reviewed in draft and comments of the Agency were sent to Mr. Edward T. Johnson, GAO, by letter dated September 7, 1965, from Mr. Robert W. Herder, AA/A.

We are requesting that your office assume the responsibility for coordinating the preparation of the Agency's reply to the published report. If additional copies of the report are needed for this purpose, they may be obtained from G/AUD (X 7901).

The addressees listed below are being furnished a copy of the report for review and comment, as appropriate. They are requested to direct to your attention by no later than May 13, 1966, any substantive comments they may have on the report. An information copy of any comments sent to AA/MR should be furnished to G/AUD, 424 SA-1.

The Agency's consolidated reply should be submitted in draft form with A.I.D., State, and USDA clearances to the Audit Division (G/AUD), 424 SA-1, by no later than June 8, 1966. The consolidated reply should be prepared to the Comptroller General (CG) for the signature of the Administrator. If extensive comments are found to be necessary, a transmittal letter should be prepared from the Administrator to the CG with detailed comments submitted as an attachment. It also will be appreciated if AA/MR prepares an action memorandum to the Administrator from Mr. William O. Hall, AA/A, to accompany the consolidated reply.

Attachments: a/s

G. Ranis, AA/FC
M. A. Bacon, G/FRD
R. M. Poats, AA/FE





COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

APR 21 1966

B-158225

To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has made a review of the expedited signing of certain agreements under title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691), commonly known as Public Law 480. This report presents our findings and conclusions based on this review.

In our review, we found that the Department of State and the Agency for International Development had made special efforts to ensure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay foreign exchange costs of ocean freight, starting with agreements signed after that date.

In enacting Public Law 88-638 on October 8, 1964, the Congress extended the effective date of the above requirement to those agreements signed on or after January 1, 1965, so that there would be no default on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted. The agreements we reviewed did not fall into either of these categories. Accordingly, it appears that the actions taken by the agencies to conclude these agreements before the effective date of this legislation were inconsistent with the reason given for granting the extension.

We estimate that, by signing agreements with the two countries by December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on the following day--January 1, 1965--or thereafter. In the case of Korea, it is possible that additional economic assistance would have been needed in subsequent years to help

meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

Moreover, so as not to delay negotiations and thus jeopardize the conclusion of the agreement with the Republic of China by December 31, 1964, the State Department and the Agency for International Development made a concession regarding another aspect of this transaction. This concession was contrary to recommendations made by the Department of Agriculture designed to protect the commercial agricultural interest of this country. We estimate that this concession resulted in a reduction of as much as \$2 million of commercial United States sales of wheat to the Republic of China during 1965.

As pointed out in the text of this report, the balance-of-payments position of the United States also was adversely affected as a result of expediting the signing of these agreements.

In transmitting our report to responsible Government agencies for comment, we made several proposals which we believed would assist the agencies in evaluating more precisely the financial implications of actions taken primarily for reasons of foreign policy. The agencies, in commenting on these matters, advised us, in general, that they believed their actions had been in consonance with the spirit of the new legislative change and that current management concepts provided adequately for consideration of the financial implications of such actions. Our evaluation of these comments is included in the text of the report.

This matter is being reported to the Congress because, as indicated above, we believe that the actions of the State Department and the Agency for International Development were inconsistent with the reason given for extending the effective date of the ocean freight provisions of Public Law 88-638 and that, as a result, the Government incurred additional costs and did not take advantage of an opportunity to improve the United States balance-of-payments position.

B-158225

Copies of this report are being sent to the President of the United States; the Secretary of State; the Secretary of the Treasury; the Secretary of Agriculture; and the Administrator, Agency for International Development.

A handwritten signature in dark ink, appearing to read "James B. Axtell". The signature is fluid and cursive, with the first name "James" and last name "Axtell" being more legible than the middle initial "B.".

Comptroller General
of the United States

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REPORT ON
REVIEW OF THE EXPEDITED SIGNING
OF CERTAIN AGREEMENTS
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OF 1954
(commonly known as Public Law 480)
DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
DEPARTMENT OF AGRICULTURE

INTRODUCTION AND BACKGROUND

The General Accounting Office has examined into the circumstances surrounding the signing of agreements during December 1964 for the sale of surplus agricultural commodities to certain countries under the provisions of title I of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1691), commonly known as Public Law 480. Our inquiry was prompted by our concern as to whether any of the unusually large number of agreements signed immediately before the effective date of a change in Public Law 480 were inconsistent with congressional intent and were contrary to the financial interests of the United States Government. Our primary emphasis was on examining into matters apparently needing attention and our review was confined to the circumstances surrounding the signing of two of the largest agreements entered into late in 1964. It was not intended to provide an overall evaluation of title I program activities in the countries we reviewed.

Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of our review is described on page 35.

Title I of Public Law 480 authorizes the President to negotiate and carry out agreements with friendly nations providing for the sale of surplus United States agricultural commodities and for payment therefor in the currency of the recipient country.

In Executive Order 10900 dated January 5, 1961, as amended, the President delegated to the Department of Agriculture all the authority vested in him for administration of title I, Public Law 480, with several exceptions. The principal functions delegated to other United States agencies are as follows:

Foreign policy and relations

1. All functions under the Act, however vested, delegated, or assigned, have been made subject to the responsibilities of the Secretary of State with respect to the foreign policy of the United States as such policy relates to such functions.
2. The functions of negotiating and entering into agreements with friendly nations or organizations of friendly nations conferred upon the President by the act have been delegated to the Secretary of State.

Uses of foreign currency proceeds

1. To the extent deemed necessary, the Director of the Bureau of the Budget is responsible for fixing the amounts of foreign currency sales proceeds to be used for the purposes set forth in section 104, Public Law 480.
2. The Secretary of the Treasury has been authorized to prescribe regulations governing the purchase, custody, deposit, transfer, and sale of foreign currencies received under the act.
3. Specified Government agencies have been delegated the responsibility of carrying out the purposes described in the lettered paragraphs of section 104 of the act, using the foreign currencies made available under the act. The agencies with delegated responsibilities consist of the

Department of Agriculture, the Department of State, the Department of Defense, the Bureau of the Budget, the Office of Civil and Defense Mobilization, the United States Information Agency, the National Science Foundation, and others.

Supervision and coordination
of program activities

At the time our review was performed, the Director of the Food for Peace Program was responsible for the continuous supervision and coordination of the functions delegated in the Executive order.¹ This authority, however, did not terminate any delegation or other assignment of function made by other sections of the Executive order.

On August 2, 1954, the Secretary of Agriculture established a committee within the Department, known as the Working Committee, for the purpose of carrying out the responsibilities of the Department under Public Law 480. The Working Committee consists of the Administrator, Foreign Agricultural Service (as Chairman); the Administrator, Agricultural Stabilization and Conservation Service; the Administrator, Consumer and Marketing Service; the Administrator, Economic Research Service; and the Executive Assistant to the Secretary of Agriculture. The Committee reports to the Secretary of Agriculture through the Assistant Secretary for International Affairs. This Committee is responsible for recommending the commodities and maximum quantities of commodities which should be eligible for programming under the various Public Law 480 programs, including title I sales agreements, together with the names of the countries eligible for programming. The Committee also makes

¹Executive Order 11252, dated October 20, 1965, transferred to the Secretary of State all functions of the Director of the Food for Peace Program, including these under Executive Order 10900, as amended.

recommendations on broad program aspects and day-to-day program requirements.

Pursuant to the President's request for interagency coordination of day-to-day operations under the Act, the Secretary of Agriculture, on October 6, 1954, established the Interagency Staff Committee on Agricultural Surplus Disposal (ISC). The delegation required the ISC Chairman to make the fullest possible use of existing services and facilities of the Department and to rely upon the advice of the Working Committee. The membership of ISC included staff-level representatives of the following agencies vested with responsibilities under the act: the Departments of Agriculture, State, Treasury, Commerce, and Defense; the Agency for International Development (AID); the Office of Emergency Planning; the Bureau of the Budget; and the United States Information Agency. Representatives of the Department of Health, Education, and Welfare and the Office of the Director, Food for Peace, also attend the meetings as observers. Additional representatives may be added by the Chairman if he considers it desirable.

The responsibilities of ISC include the development and review of programs, operations, and basic agreements to be negotiated under title I. Although the ISC technically is advisory in nature, as a practical matter its decisions largely determine the terms and conditions of title I sales. However, any member who is dissatisfied with a proposed policy, agreement, or operation may require its submission to policy officials in interested agencies or departments for resolution.

The ISC usually sends the agenda for the weekly meeting to representatives of the member agencies 2 or 3 days prior to the

meeting date to enable the agencies concerned to determine their position on the matters on the agenda.

Utilizing the service and experience of other agencies represented on ISC, the Department of Agriculture takes the lead in the development and review of proposed programs. The Foreign Agricultural Service prepares the proposed program for each country, the negotiating instructions, and a draft sales agreement and submits them to ISC for review and approval. If all members agree on the proposed program and the drafts of the negotiation instructions and the sales agreement, the program is approved for negotiating. If the Committee is in agreement on the program but not on the currency uses, the program may be approved subject to the working out and approval of the currency uses at a later date. If the Committee cannot agree on the program or currency uses, the matter is referred to a subcommittee or to a member agency for study and recommendation at a later meeting. If the question is resolved satisfactorily, the Committee approves the program.

The minutes of the ISC meetings are distributed to all members of ISC, to other agencies which may be interested in certain phases of programs, and to all United States Embassies as guiding principles to be followed and as reflecting the position of the United States Government.

The ISC must analyze each program proposal to see that the program does not displace the usual marketings of the United States, that it is consistent with United States foreign policy, and that it is coordinated with foreign assistance and other United States programs. It determines the broad categories of uses of the foreign currencies and applies any other title I criteria which must be considered because of other programs.

After ISC approves a proposed agreement, the Department of State transmits final negotiating instructions to the United States Embassy and formal negotiations are started with the foreign government. Any proposed modification of an approved sales agreement must be submitted to ISC for approval before the sales agreement can be modified. After the government-to-government agreement has been signed, further operations relating to the program are performed by the operating divisions of Foreign Agriculture Service (FAS) and Agricultural Stabilization and Conservation Service (ASCS.)

A major cost element of the title I, Public Law 480, surplus agricultural commodity program is that of ocean transportation. The United States has financed a major portion of these costs, in dollars; under title I sales agreements entered into since the inception of the program in 1954. However, as the result of a legislative change to Public Law 480--Public Law 88-638 enacted in October 1964--the recipient country is required to pay a major part of the dollar costs for ocean transportation under agreements concluded on or after January 1, 1965.

Forty-four agreements, or amendments to agreements, with an export market value of approximately \$1.1 billion, were entered into with 27 countries during 1964. Of these, agreements to sell agricultural commodities to eight countries under title I, Public Law 480, were entered into during the last 10 days of 1964, just before the new legislative requirement became effective, as shown on the following page:

<u>Country</u>	<u>Date signed</u>	<u>Total amount of agreement</u>	<u>Market value of commodities</u>	<u>Estimated ocean transportation costs</u>
Korea	12-31-64	\$ 45,000,000	\$ 41,130,000	\$ 3,870,000
Taiwan	12-31-64	18,550,000	16,030,000	2,520,000
India	12-31-64	28,400,000	23,700,000	4,700,000
Dahomey (note a)	12-31-64	269,000	244,000	25,000
Iceland	12-30-64	900,000	800,000	100,000
Morocco	12-29-64	7,800,000	6,900,000	900,000
Israel	12-22-64	17,400,000	15,800,000	1,600,000
Guinea	12-21-64	<u>5,420,000</u>	<u>4,980,000</u>	<u>440,000</u>
		<u>\$123,739,000</u>	<u>\$109,584,000</u>	<u>\$14,155,000</u>

^aThis agreement, which was not implemented, was canceled on May 22, 1965.

Only two agreements were entered into during December of the preceding year.

A draft of our report was transmitted for comment to the Departments of State and Agriculture, the Agency for International Development, and the Bureau of the Budget in May 1965. The agencies' comments, and our evaluation thereof, are incorporated in the various subsections of this report, where appropriate, and in a separate section starting on page 26. Also, the pertinent texts of the comments are included herein as appendixes. Certain comments made by the State Department and AID, designated by them as classified security information, have been deleted from the appendix. These deleted portions either are so stated as to be unclassified and discussed in this report or are not, in our judgment, directly pertinent to the specific matters discussed herein.

A list of the principal officials having responsibilities for the matters discussed in this report is shown as appendix IV.

FINDINGS

EXPEDITED SIGNING OF CERTAIN AGREEMENTS UNDER TITLE I OF PUBLIC LAW 480

The Department of State and the Agency for International Development made special efforts to ensure that agreements for the sale of surplus agricultural commodities to the Republic of Korea and the Republic of China were signed on or before December 31, 1964. This enabled these countries to avoid the effect of newly enacted legislation which required recipient countries to pay a greater share of the dollar costs of ocean freight, starting with agreements signed after that date.

In enacting Public Law 88-638 on October 8, 1964, the Congress extended the effective date of the above requirement to those agreements signed on or after January 1, 1965, so that there would be no default on agreements previously entered into or a need for the United States to renegotiate agreements ready for signing when the legislation was enacted. None of the agreements we reviewed fell into either of these categories. Accordingly, it appears that the actions taken by the agencies to conclude these agreements were inconsistent with the reason given for granting the extension.

We estimate that, by signing agreements with the two countries by December 31, 1964, the United States will pay several million dollars in additional dollar costs for ocean freight charges over what would have been paid had the agreements been signed on the following day--January 1, 1965--or thereafter. In the case of Korea, it is possible that additional economic assistance would have been needed in subsequent years to help meet these ocean freight costs. The Republic of China no longer receives economic assistance from the United States.

Moreover, so as not to delay negotiations and thus jeopardize the conclusion of the agreement with the Republic of China by

December 31, 1964, the State Department and the Agency for International Development made a concession regarding another aspect of this transaction. This concession was contrary to recommendations made by the Department of Agriculture designed to protect the commercial agricultural interests of this country. We estimate that this concession resulted in a reduction of as much as \$2 million of commercial sales of wheat from the United States to the Republic of China during 1965.

As pointed out in the text of this report, the balance-of-payments position of the United States also was adversely affected as a result of expediting the signing of these agreements.

In transmitting our report to responsible Government agencies for comment, we made several proposals which we believed would assist the agencies in evaluating more precisely the financial implications of actions taken primarily for reasons of foreign policy. The agencies, in commenting on these matters, advised us in general that they believed their actions had been in consonance with the spirit of the new legislative change and that current management concepts provided adequately for consideration of the financial implications of such actions. Our evaluation of these comments is included in the text of this report.

Amendment to Public Law 480
required foreign countries
to bear a greater share of
ocean freight dollar costs

As a result of an amendment to section 102 of Public Law 480 (Public Law 88-638, enacted October 8, 1964), a foreign country obtaining agricultural commodities under title I agreements entered into after December 31, 1964, is required to pay in dollars for all ocean transportation costs on United States-flag vessels, except

for the cost differential involved in using United States-flag vessels instead of foreign-flag vessels.¹

Under agreements signed on or before December 31, 1964, the United States paid in dollars for all the ocean freight costs on United States-flag vessels. The recipient country, however, reimbursed this country in its own currency in an amount equal to what the cost would have been had a foreign-flag vessel been used. Under the terms of the December 1964 sales agreements, most of this currency was given back to Korea and Taiwan in the form of grants.

Essentially, the practical effect of the revision in the law is to require the recipient country, rather than the United States, to bear the dollar cost of ocean transportation on American vessels up to an amount equivalent to what it would have cost to ship on foreign vessels.

Our review of the legislative history of the ocean freight amendment disclosed that, as originally proposed, it was to become effective upon enactment, which in this case would have been October 8, 1964. We noted further that the extension of its effective date to January 1, 1965, was proposed by the Senate-House Conference Committee that considered the 1964 extension of, and amendments to, Public Law 480. While the Committee's report of September 22, 1964 (H. Rept. 1897, 88th Cong., second sess.), itself specified no reason for extending this amendment's effective date, the reason provided during the Senate's consideration was:

"*** so that it will not require us to default on agreements heretofore entered into or to renegotiate

¹The use of United States-flag vessels is mandatory for transportation of at least 50 percent of the commodities under the terms of the Cargo Preference Act of 1936 (46 U.S.C. 1241(b)).

agreements now ready for signing. ***" (Cong. Rec., p. 21878, Sept. 23, 1964.)

The agreements discussed in this report had not been "entered into" at the time the Committee was considering the amendment or at the time its report was issued. Neither were they then "ready for signing," since final negotiating instructions, which are necessary to open formal negotiations with title I recipients, were not sent by the State Department to its embassies until December 24, 1964 (Taiwan), and December 28, 1964 (Korea). In fact, Korea did not submit its request for a title I agreement until September 22, 1964--the same day the Conference Committee submitted this amendment for consideration by both Houses of the Congress.

The State Department and AID advised us that they did not feel that the will of the Congress in enacting this amendment had been circumvented by their efforts to ensure that the agreements with Korea and China were signed by December 31, 1964. This view was based upon their belief that the time lapse between enactment of the amendment and its effective date permitted the signing of new agreements not embodying its provisions. Moreover, the agencies commented that it is not unusual for the Congress to provide an interim period before major legislative changes become effective. The Department of Agriculture advised us that it had examined closely into the congressional intent behind the amendment and had determined that concluding the agreements before the end of calendar year 1964 was appropriate within the terms of the congressional action.

Additional ocean freight dollar costs

Our review of title I agreements entered into with Korea and Taiwan late in December 1964 showed that special efforts were made by the State Department and AID to ensure that the agreements were signed before the effective date of newly enacted legislation which would have required these countries to pay additional dollar costs for ocean freight.

Under the terms of the agreements signed in December 1964, the United States Government would incur an estimated \$4.8 million in additional dollar costs for ocean freight charges (note a), as illustrated below:

	<u>Total</u>	<u>Korea</u>	<u>Taiwan</u>
Estimated dollar costs to the United States, according to December sales agreements	\$6,390,000	\$3,870,000	\$2,520,000
Less estimated dollar costs to the United States had sales agreements been signed after December 1964	<u>1,550,000</u>	<u>900,000</u>	<u>650,000</u>
	<u>\$4,840,000^a</u>	<u>\$2,970,000</u>	<u>\$1,870,000</u>

^aUnder agreements signed with Korea and Taiwan, the United States will be reimbursed in foreign currencies for the cost that would have been incurred in shipping commodities on foreign-flag vessels. This amounts to the equivalent of about \$4.8 million. Of this amount, the foreign currency equivalent of \$1 million will be available for United States uses and the balance will be granted to Korea and Taiwan. To the extent that the portion set aside for United States uses eventually substitutes for dollar expenditures that would otherwise be made, this would offset the additional United States dollar costs incurred in financing ocean freight shipments discussed in this report.

Since United States carriers normally would have been paid by the foreign countries in dollars or other hard currencies, an opportunity to improve the United States balance-of-payments position was lost by having the United States Government finance such charges.

In evaluating the need to expedite the signing of agreements, we noted that there was at least a 5- to 6-month supply of commodities available to Korea and Taiwan at the time the agreements to provide similar commodities were entered into in December 1964, as follows:

<u>Country and commodity</u>	<u>On hand or in supply channels</u>	<u>Monthly consumption requirements</u>	<u>Supply (months)</u>
	<u>_____ (thousands) _____</u>		
Korea:			
Wheat (metric tons)	436	67	6
Cotton (bales)	147	28	5
Taiwan:			
Wheat (metric tons)	142	24	6

We believe that from the foregoing it is evident that a delay of 1 or 2 days in signing the agreements would have had no appreciable effect on the availability of commodities for these countries.

The circumstances surrounding the signing of the agreements are further described in the following sections of this report.

Korea

On September 22, 1964, the Korean Government submitted a request for a title I agreement for its calendar year 1965 needs. The request was primarily for wheat and cotton.

The Embassy and the United States Operations Mission (USOM) forwarded the request to Washington on October 14, 1964, and expressed their belief that it was premature and that the data supporting it were inaccurate. They recommended that the request be delayed until later in the year, pending a better assessment of Korea's 1965 needs.

From mid-October until the signing of the agreement on December 31, 1964, there was a steady interchange of cables and memoranda among interested United States agencies concerning this request. On the one hand, the State Department and AID recommended approval by December 31, 1964, in order to relieve Korea of the additional freight costs called for by the new legislation. On the other hand, the Department of Agriculture opposed signing the agreement by December 31, 1964, because there was no need for the commodities at the time and because signing the agreement would appear to circumvent the intent of the new legislation. For example:

1. On November 23, 1964, the Embassy in Korea and USOM recommended that the agreement be signed before the end of the year:

"*** particularly in view of [Korea's] interest sign *** agreement prior end 1964 avoid addition FX [foreign exchange] and L/C [local currency] burden under new legislation."

2. On December 10, 1964, the Director of the Program Development Division, Foreign Agricultural Service, Department of Agriculture, advised the Assistant Administrator for Export Programs, FAS, that there was no urgency for a new Korea title I agreement. He stated that sizable quantities of wheat still to be shipped under prior agreements would provide significant inventories with which to start the new year and that cotton was in plentiful supply in Korea. He added:

"Korea and AID want to sign before January 1 to get financing of transportation."

3. Substantially the same positions were taken at the Inter-agency Staff Committee meeting of December 10, 1964. State Department representatives urged that the agreement be signed before December 31, 1964. Department of Agriculture representatives maintained that sufficient wheat and rice were available under then current title I agreements. It was also pointed out that signing before December 31 appeared to be a circumvention of the new legislation regarding recipients' payment of ocean transportation costs.
4. On December 15, 1964, the Associate Administrator, FAS, stated that there was no urgency for signing the agreement since adequate quantities of wheat and cotton were still available under previous agreements. He nevertheless concurred in AID's view that signing it would place United States negotiators in a more favorable position in dealing with other economic matters in Korea.
5. During this period, State Department and AID memoranda to the Department of Agriculture advocated concluding the agreement prior to the end of December 1964 on the grounds that it would be extremely important to United States objectives within that country to do so. These objectives were political in nature and did not bear on the specific question of the shifting of ocean freight costs from the United States to Korea. Also, the agencies discussed certain consequences (of a classified nature) that might result if the concluding of the agreement were delayed beyond December 31, 1964.

The agreement was signed on December 31, 1964.

Although we are not in a position to evaluate the effect upon United States objectives had the added cost of ocean freight financing been shifted from the United States to Korea, we believe that the preponderance of available evidence indicates that the principal motivational factor of State and AID was to relieve the Korean Government of the need to pay additional dollar costs of ocean freight.

Available evidence also points to the fact that the signing of this agreement on an expedited basis was not predicated on any immediate need for the commodities, as illustrated by a communication from the Director of the AID Mission in Korea to AID/Washington in December 1964. The Director pointed out that:

1. A bumper 1964 domestic grain crop contributed to the highest grain inventory ever held in Korea.
2. Korean importers were evidencing a reluctance to finance cotton imports, partly because of fully stocked inventories.

Taiwan

On June 29, 1964, Taiwan submitted its request for a title I agreement, mainly for wheat. The American Embassy forwarded the request to Washington on July 24, 1964, with a favorable recommendation, provided that certain modifications were made.

Records at the State Department and AID show that special efforts were made by both agencies to have this agreement signed by December 31, 1964. For example:

1. On November 4, 1964, AID/Washington cabled the American Embassy in Taiwan that:

"If agreement signed prior to December 31, now anticipate new legislative provisions for freight will not be applicable ***."

2. On November 19, 1964, the Embassy advised the State Department that:

"Essential PL 480 negotiating instructions be received soonest in order conclude agreement prior Dec 31."

3. On December 4, 1964, AID/Washington protested proposed program changes partially on the grounds that consultation with Taiwan would:

"*** delay signing agreements beyond December 31 resulting additional cost to GRC [Government of the Republic of China] about \$2.0 million as new freight regulations would apply."

4. On December 21, 1964, the American Embassy protested to the State Department regarding the imposition of certain conditions in connection with the agreement. The Embassy added that insistence on these conditions would:

"*** likely create grave difficulties in consummating agreements prior Dec 31, 1964."

5. The Embassy, on December 23, 1964, again protested imposing the conditions stating that:

"It is imperative that agreements be signed prior to Dec 31 deadline."

As noted on pages 21 to 25, the sales conditions the Chinese Government was asked to accept were less favorable to the United States than those advocated by the Department of Agriculture as necessary to protect our commercial agricultural interests, and they were modified at the request of the State Department and AID in order to make the agreement more attractive to Taiwan so as to ensure its being signed by December 31.

The title I agreement, as finalized, called for the sale of about 215,000 metric tons of wheat and 635 metric tons of tobacco during calendar year 1965. Our review disclosed no immediate need for these commodities at the time the agreement was signed. In fact, the agreement apparently was entered into primarily to generate foreign currency proceeds for carrying out United States assistance programs in the Republic of China, since it was recognized

that the Republic could probably afford to buy on commercial terms any commodities it needed. For example, in forwarding the country's request for a title I agreement to Washington on July 24, 1964, the American Embassy recognized that Taiwan's ample foreign exchange resources militated against another sale for foreign currency. The proposed agreement, however, was supported by the Embassy on the grounds that there was a need for foreign currency proceeds to carry out military and economic programs in consonance with United States foreign policy objectives.

Since foreign currency proceeds from the new agreement would have been available for United States-supported programs even if the agreements had been signed after December 31, 1964, it is evident that there was no urgent need to sign the agreement by that date for this purpose alone.

In commenting on this aspect of our report draft, the State Department, AID, and the Bureau of the Budget advised us that the December 31, 1964, title I agreement with Taiwan was much more favorable than prior agreements had been since it also included provisions for title IV sales repayable in dollars, thus representing a major shift from title I sales that are repayable in local currency. Moreover, the agencies advised us that this agreement called for Taiwan to purchase, on commercial terms, quantities of agricultural commodities from the United States and other Free World countries substantially greater than those required under prior agreements. They estimated this increase to be about \$24 million over the 2-year life of the title I and title IV agreements (calendar years 1964 and 1965), a substantial, but unspecified, share of which would be purchased from United States sources. For these reasons, as well as for the accomplishment of

United States foreign policy objectives, the agencies concluded their detailed comments on this aspect of our report draft by stating:

"*** The report's criticism of State/A.I.D.'s desire to include the relatively small concession of 50 percent ocean freight financing of \$2.5 million for a program which had been under consideration for 6 months, therefore, is surprising." (Emphasis added.)

While the terms of the December 31, 1964, agreement may be more favorable than those obtained in prior agreements, it does not seem that the United States concession on ocean freight financing was a condition precedent to obtaining such terms. For example:

1. We could find no evidence, despite extensive inquiries, that Taiwan requested this concession during the course of any country-to-country negotiations, or even that State/AID negotiators ever broached the subject to their Taiwanese counterparts.
2. State/AID's response to our report draft made no mention of any insistence by Taiwan on such a concession but rather specifically stated that it was predicated upon "State/A.I.D.'s desire."
3. The circumstances surrounding the negotiations of the agreement make it highly unlikely that the matter was ever officially broached or discussed. For example, final negotiating instructions from the State Department to its Embassy in Taiwan were not dispatched until December 24, 1964, and were silent on the subject of ocean freight. This silence seems predicated on the objections raised by State/AID prior to finalizing the instructions, which by their own admission were based on their own desire rather than on any objections by Taiwan.

Accordingly, while it is possible that the terms of this agreement were more favorable to the United States than previous agreements had been, we find it surprising that State/AID would

make special efforts to sign it by December 31, 1964, thereby adding to the United States' dollar costs of ocean freight. As previously noted, we could not find any evidence that this was a necessary concession for obtaining agreement to the proposed sale or to its terms.

In view of Taiwan's strong foreign exchange position, there appears to have been no overriding reason for having the United States, rather than Taiwan, absorb additional dollar costs for freight charges. With the help of substantial amounts of economic assistance provided by the United States in the past, Taiwan is now considered to be economically viable and is cited by AID as an outstanding example of the success of our assistance program. The strong economic position of Taiwan also has been recognized by the Department of Agriculture, which, on August 11, 1964, and again on March 22, 1965, classified its financial position as good--the same adjective rating applied to such nations as Australia, Canada, Japan, and the United Kingdom.

The title I agreement was signed on December 31, 1964. Our review of the minutes of the Interagency Staff Committee and discussions with agency representatives on that Committee showed that no objections were raised to the expediting of the conclusion of this agreement.

Decrease in commercial sales of wheat
to Taiwan because of expedited signing
of title I agreement

To avoid delays in negotiations that might jeopardize the signing of the title I agreement with Taiwan by December 31, 1964, the Department of State and AID made a concession regarding another aspect of this agreement. This concession was contrary to recommendations made by the Department of Agriculture designed to protect our commercial agricultural interests, and it could have resulted in decreasing commercial dollar sales of wheat to Taiwan by as much as \$2 million during 1965. Moreover, since these sales would have been made for dollars or other hard currencies, an opportunity to improve the United States balance-of-payments position by increasing our earnings of hard currency was not realized.

Wheat and rice are considered to be substitute commodities from a nutritional standpoint, since both are considered to be high-caloric energy foods. Nevertheless, while wheat is being provided to Taiwan on concessional sales terms, Taiwan is a significant commercial exporter of rice. This seeming inconsistency has been rationalized by United States agencies administering Public Law 480 on the grounds that the quantities of rice Taiwan has exported in the past would have been exported even in the absence of Public Law 480 wheat shipments.

In the calendar year 1965 title I agreement, United States agencies for the first time attempted to limit Taiwan's rice exports on the grounds that title I shipments of wheat would make exports of some of Taiwan's rice production possible. This action was in line with established policy that Public Law 480 sales should not result in increased country exports of the same or a like commodity.

The means for limiting Taiwan's exports of rice is technically known as a "compensatory requirement." Under this arrangement, for each ton of rice Taiwan exported in excess of 110,000 tons during 1965, it was required to purchase on commercial terms from the United States an equal amount of wheat.

The compensatory requirement is usually arrived at by considering the historical level of commodity exports of the country receiving Public Law 480 assistance and by adjusting this data to take into account population growth, increases in agricultural productivity, and similar factors.

On the basis of these considerations, the Department of Agriculture advocated that the 1965 title I agreement with Taiwan contain a noncompensatory export level of 80,000 metric tons of rice. This was predicated on the thesis that Taiwan's normal rice exports would be at that level in the absence of a title I wheat program. For any exports of rice over this level, an equal quantity of wheat was to be purchased from United States commercial sources.

In reviewing correspondence and related documents concerning this aspect of the agreement, we noted that State Department and AID officials had advocated raising the proposed level because of their concern that adherence to it would prolong negotiations on the agreement and thus possibly prevent its being signed before December 31, 1964.

For example, a few days before the agreement was signed, the American Embassy cabled the State Department of its concern regarding proposed restrictions in the agreement, including: „

*** added compensatory requirement that GRC import wheat with its own foreign exchange ton-for-ton for each ton of rice exports over 80,000 M.T. annually. *** recommend you to use your efforts to see that *** compensatory

requirement dropped. It is imperative that agreements be signed prior to Dec 31 deadline."

This cable, which was sent on December 22, 1964, is illustrative of several we noted which alluded to contemplated difficulties in finalizing the agreement by December 31 if compensatory and other requirements were not modified. On December 24, 1964, revised instructions were sent to the Embassy allowing the noncompensatory export level to be raised from 80,000 metric tons, as proposed by the Department of Agriculture, to 110,000 metric tons, as finally proposed by AID, and the agreement was signed December 31, 1964.

The agreement concluded with Taiwan reduced its obligation to purchase wheat from United States commercial sources by as much as 30,000 metric tons during 1965. On the basis of an export market price of \$69 per metric ton, as estimated by the Department of Agriculture, the loss of United States commercial exports would amount to as much as \$2 million.

Our review of AID's data supporting its proposed 110,000 metric-ton level indicated that a fundamental factor had been overlooked. Essentially, AID's position was that the Department of Agriculture's 80,000 metric-ton level was based on an average of rice exports over a 4-year period--1961 to 1964--and that this period was not representative since:

1. Two of these years--1961 and 1962--were particularly bad barley crop years. This necessitated the use of exportable rice to make up the barley shortage, and rice exports were therefore reduced.
2. A 10-year average--1955 to 1964--was 110,000 metric tons and was thus more representative.

Information developed in our analysis of Taiwan's grain imports and exports indicates that rice exports have been historically supported at artificially high levels by United States concessional wheat sales. For example, since at least 1957, the United States (1) has provided Taiwan with over 200,000 metric tons of wheat annually under title I and similar programs, (2) has given Taiwan most of the local currency derived from the sale of this wheat, and (3) has imposed no conditions on the sale of identical or similar grains. Thus, Taiwan has been able to export rice without limitation and to use essentially free United States wheat. United States agencies, in connection with the December 1964 agreement, for the first time undertook to remedy this condition in future title I wheat sales by limiting the amount of rice that could be exported.

Since Taiwan's rice exports have historically been influenced by United States concessional title I wheat sales, it seems that any noncompensatory export level would constitute, in itself, a concession by the United States. For example, a parallel condition exists in Korea which also receives title I grains at the same time that it exports rice. The December 1964 title I agreement with that country provides that all Korean rice exports be offset by equivalent imports of wheat or barley from the United States and that these compensatory purchases be made with Korea's own resources.

From the foregoing example, we believe that it was incumbent on United States agencies administering Public Law 480 activities to attempt to obtain the maximum feasible level of compensatory commercial imports of United States wheat by Taiwan. We believe also that a desire to relieve Taiwan of the financial burden

resulting from the legislative change to Public Law 480 would not be a valid reason for the reluctance of the Department of State and AID to enter into negotiations for the compensatory level proposed by the Department of Agriculture.

Agency comments and our evaluation thereof

In addition to the comments of the agencies previously discussed, following are their more salient comments together with our evaluation thereof.

1. The agencies stated that, in view of the nature of the United States aid commitment to Korea, the payment of ocean freight charges falls directly or indirectly on the United States foreign assistance program. Thus, the agencies felt that no cost reduction to the United States would have resulted had the agreement been concluded after December 31, 1964.

It is, of course, theoretically possible that an increased need for United States assistance might result from having Korea absorb additional freight costs. We do not feel, however, that such a contingency is sufficient justification for concluding the agreement under circumstances inconsistent with the purpose of applicable legislation, particularly since our review of the legislative history of the ocean freight amendment indicated an expectation by members of the Congress that the recipient, rather than the United States, would pay such costs.

Rather, we believe that, if the agencies determine that such additional assistance is needed, the most appropriate manner of obtaining the necessary funds is to submit a budget request to the Congress for its review and approval during the annual authorization and appropriation process. Moreover, AID itself has recognized that these costs are ineligible for financing under the foreign assistance program and should be borne by recipients. In this respect, the Agency issued a directive--Manual Circular 10:46, effective July 19, 1965--which in pertinent part states:

"B. AID/W [AID/Washington] recognizes that this requirement [for aid-receiving countries to pay ocean

freight costs] will increase the balance of payments burden of many AID recipient countries. This payment requirement, like any other legitimate foreign exchange need, will be taken fully into account in assessing the level of any AID program assistance to the country. However, dollar freight costs attributable to *** [this] must be borne by the recipient country and such costs are not eligible items for A.I.D. financing." (Emphasis added.)

2. In the case of Korea, the agencies did not concur in our view, expressed on page 13, as to the lack of urgency for the principal commodities provided under the agreement. State and AID advised us that they normally regard a 6-month, rather than 5-month, pipeline as appropriate for cotton.

Assuming arguendo that there was an urgent need for cotton in Korea, we believe it is evident that a delay of a day or two in concluding the agreement would have had no appreciable effect upon the availability of this commodity. However, the evidence disclosed from our examination strongly suggests that no urgent need did, in fact, exist.

The Departments of State and Agriculture and the Agency for International Development acknowledged in their responses to us that substantial stocks of cotton were on hand or in transit at the time the agreement was concluded. Thus, while the 5-month cotton pipeline was perhaps 1 month short of what State and AID normally regard as "appropriate" for that commodity, it is evident that this fact alone was not sufficient justification for concluding the agreement by December 31.

3. State/AID and the Bureau of the Budget (BOB) indicated that the decision that the United States relieve the recipient countries of the dollar cost of shipping the commodities on United States-flag vessels was made after considering whether the agreements would otherwise have been signed. BOB added that this concession

provided more leverage in negotiating better terms elsewhere in the agreements. In the case of Korea, State/AID and the Department of Agriculture advised us that the title I proceeds available for United States uses under this agreement rose by about \$1.8 million when contrasted with the prior year's agreement. The agencies compared this increase with the \$3.9 million provided Korea in ocean freight costs financed by the United States. The Department of Agriculture added that the \$1.8 million represented about half the additional freight costs paid by the United States and also that this \$1.8 million would have an offsetting beneficial effect on the United States balance of payments.

The agencies' inference that the countries would not have accepted the commodities had they been required to pay the added ocean freight costs called for by the amendment seems to be based upon speculative considerations. Extensive inquiries, which we made at all appropriate agencies in Washington, were unable to provide us with any evidence that the matter of the concession had ever been actively discussed with the recipients in the course of country-to-country negotiations and was thus necessary to the conclusion of the agreements. For example, the negotiating instructions dispatched to the American Embassies concerned contained no reference to any such contemplated concession. Rather, as noted previously, the decision of the United States agencies, particularly the State Department and AID, to grant this concession was made prior to the dispatch of these instructions.

Moreover, it seems unreasonable for the agencies to have supposed that the agreements would not be signed if the recipients had to pay a larger portion of the dollar costs of ocean freight charges. Title I sales by their very nature are extremely favorable to recipients, the so-called sales proceeds being payable in

the recipients' own currency rather than in dollars. Moreover, the greater part of such proceeds is not available for United States use but rather is either granted or loaned to the recipients. It seems highly unlikely, therefore, that commodities would be available to recipients under similar concessionary terms from other sources.

A practical illustration of the weakness in the agencies' argument is the currently contemplated agreement with Korea. In November 1965, Department of Agriculture officials advised us that the Korean Government had requested a new title I agreement for commodities deliverable during calendar year 1966. Since the requirements of the ocean freight amendment will apply to this contemplated agreement, it seems obvious that the Korean Government is seeking to obtain title I commodities under conditions requiring it to pay dollar costs of ocean freight.

The agencies' comments regarding the increased financial benefits to the United States under the December 31, 1964, agreement with Korea seem to imply also that the concession regarding ocean freight costs was a condition precedent to obtaining Korean agreement to an increased use by the United States of title I sales proceeds. Our review does not support this position. Although there is some evidence that the Koreans were aware of the advantage to them of concluding this agreement by December 31, 1964, we found no evidence, despite inquiries at responsible agencies in Washington, that this matter was actively pursued by United States representatives in the course of country-to-country negotiations. Moreover, as noted above, it seemed that the agencies' decision to forego this financial benefit to the United States was predicated on a decision of the State Department and AID preceding the opening of

formal country-to-country negotiations and that it was not a concession made in exchange for compensatory ones on the part of the Koreans.

4. BOB advised us that, in connection with these agreements, the decision to relieve the recipients of paying a portion of the ocean freight costs was made after taking balance-of-payment and budgetary considerations fully into account.

After receipt of these comments, we inquired into whether a special analysis had been made with respect to balance-of-payments and budgetary considerations. A BOB representative informed us that no specific cost analysis had been made. This representative could not provide us with any documentary evidence as to what matters had been considered. We found no evidence at any of the other agencies concerned that detailed consideration had been given to the financial implications of the ocean freight amendment in terms of the United States balance-of-payments situation or in terms of budgetary costs to this country, so that an evaluation could be made of the cost-effectiveness of such concessions.

5. The Department of Agriculture stated that it is appropriate to sign agreements in advance of the calendar year and also that, from the standpoint of good management, it was considered desirable to have the Korean agreement in effect by at least December 31, 1964.

We found that the preceding agreement with Korea, covering calendar year 1964, was not signed in advance of the calendar year but rather in March 1964. In many cases title I agreements are signed during, rather than in advance of, the periods they are intended to cover. Hence, there does not seem to be any inviolate rule governing the concluding of agreements vis-a-vis the period to

be covered. We always favor good management practices, but we cannot perceive where a delay of 1 or 2 days in concluding a title I agreement would adversely affect good management, particularly in view of the precedent established by the signing of other title I agreements, including the calendar year 1964 Korean agreement.

Also, since specific circumstances should govern any management decision, the overall lack of urgency for the commodities, coupled with the financial advantages to the United States of concluding the agreements after December 31, 1964, seems to us to have been sufficient justification for concluding the agreements a day or two later.

Conclusions

The foregoing findings make it clear that the two Public Law 480, title I, agreements discussed in this report were entered into under circumstances inconsistent with the reason given for extending the effective date of the ocean freight provisions of Public Law 88-638 and that they were financially disadvantageous to the United States.

It seems evident that these actions were directed principally by the Department of State and AID, both to relieve the foreign countries receiving title I commodities of foreign exchange costs for ocean freight charges and to achieve certain foreign policy objectives. Other agencies represented on the Interagency Staff Committee acquiesced in these decisions.

We recognize that one of the objectives of Public Law 480 is to serve as an instrument of United States foreign policy. Thus, the Department of State and AID are properly concerned with the administration of Public Law 480 programs in terms of their impact on United States foreign economic and political policies. These agencies, in carrying out their assigned functions, can be expected to make full use of the opportunities presented by title I programs to negotiate agreements with foreign countries under such terms as will maximize their concept of United States foreign policy objectives.

In our opinion, State and AID were the dominant agencies in deciding when the title I agreements discussed in this report were to be entered into with foreign governments. Our review did not indicate that the influence of other agencies, whose interests in Public Law 480 evolve around other than foreign policy considerations, were brought to bear in the decision-making process so as to

permit evaluation of the financial implications of entering into the agreements on or before December 31, 1964.

The agencies which are concerned with both the budgetary effects and the balance-of-payments effects of the Public Law 480 program did not, as far as we were able to determine, make any evaluation of the financial implications of concessions made to Korea and Taiwan and did not interpose any objections to the position of State and AID within the Interagency Staff Committee. Consequently, we question whether administrative arrangements established to coordinate Public Law 480 program activities are such as to ensure that United States budgetary and balance-of-payments considerations are given adequate weight in the Public Law 480 decision-making process.

We therefore suggested to the Departments of State and Agriculture, the Agency for International Development, and the Bureau of the Budget that it might be desirable for more specific review and evaluation responsibilities to be delegated to agencies such as the Bureau of the Budget. In response thereto, we were advised by Agriculture and the Bureau of the Budget that representatives of the Bureau and other agencies on the Interagency Staff Committee are full-fledged members thereof, speak with an equal voice with any other members of the Committee, and have adequate opportunity to exercise their responsibilities. Hence, a more specific delegation of responsibilities was not considered necessary.

We agree that all agencies represented on the Interagency Staff Committee technically have an adequate opportunity to exercise their responsibilities. As illustrated by this report, however, it is doubtful that sufficient facts were marshaled by all the agencies participating in the decision-making process to allow

them to view all of the implications of the decisions reached. As a practical matter, the effectiveness of any committee in arriving at balanced evaluations of proposed programs is dependent on the degree to which the spokesmen of the various agencies exercise their potential influence. We believe, therefore, that representatives of agencies on the Interagency Staff Committee charged with responsibility for evaluating the financial implications of proposed agreements should make certain that such matters are thoroughly evaluated, particularly with respect to programs being justified on the basis of foreign policy considerations, and that these evaluations are made a matter of record in Interagency Staff Committee minutes. This would subject Department of State and AID decisions in Public Law 480 matters to the discipline of a more rigorous evaluation of their position in terms of cost to the United States when weighed against the specific foreign policy objectives being sought.

SCOPE OF REVIEW

Our review was directed primarily toward evaluating the reasons and need for entering into title I agreements late in December 1964. We made a detailed review of the circumstances surrounding the signing of agreements with the Governments of the Republic of Korea and the Republic of China.

We reviewed correspondence, reports, and other pertinent material available to us at the Department of Agriculture, the Department of State, and the Agency for International Development and discussed relevant matters with responsible officials of these agencies. Our review was conducted in Washington, D.C., and was completed in November 1965.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington 25, D. C.

CONFIDENTIAL [See GAO note.]

SEP 7 1965

Mr. Edward T. Johnson
Associate Director
International Operations Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Johnson:

The Agency has completed its review of the General Accounting Office draft report entitled "Unnecessary Transportation Costs and Loss of Commercial Agricultural Sales Due to the Expedited Signing of Sales Agreements Under Title I, Public Law 480." Our review was made in coordination with the Departments of State, Agriculture, Treasury, and Bureau of the Budget. ***; [See GAO note.]

The amendment to Public Law 480, enacted October 8, 1964, stipulates that a foreign country purchasing commodities under Title I agreements entered into after December 31, 1964, is required to pay most transportation costs. We do not concur with the report that signing of Title I agreements in December 1964, circumvented the will of Congress. The signing did not violate the statute because a period of time from date of enactment through December 31, 1964, permitted the signing of new agreements not embodying the revised transportation provision. When major amendments are made in legislation, it is not unusual for the Congress to provide an interim period before the changes go into effect. Also, from a timing standpoint, the Republic of China, [See GAO note.] had requested Title I commodities before the new legislation had been enacted; the Korean request was anticipated.

In concluding that the U. S. Government financed freight charges unnecessarily, the report assumes that the commodities would have moved in any case and ignores the fact that, so far as aid-receiving countries are concerned, the burden of financing freight charges falls directly or indirectly upon the U. S. aid program. For example, in connection with a Title I agreement signed with Morocco in April 1965, A.I.D. approved the use of Supporting Assistance loan funds to finance freight because of Morocco's stringent financial condition.

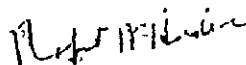
CONFIDENTIAL [See GAO note.]
w/attachments

Mr. Edward T. Johnson

The report states that the U. S. will lose more than \$2 million in commercial wheat sales to China because the U. S. Department of Agriculture's initial recommendation on the amount of rice exports, for which offsetting purchases of wheat in the U. S. would be required, was not accepted. However, the report does not point out that the usual marketings for all commodities included in the Title I and IV agreements signed in December increased by about \$24 million from previous levels. Moreover, the Title I and IV agreements signed with China accomplished a major shift from Title I with payment in local currency to Title IV repayable in dollars at harder terms than previously.

To the extent deemed necessary, I shall be pleased to arrange for conferences between members of our respective staffs to discuss the report and our comments.

Sincerely yours,



Robert W. Herder

Acting Assistant Administrator for Administration

Attachments [See GAO note.]

GAO note: Portions deleted were confidential or were not pertinent to this report.



UNITED STATES DEPARTMENT OF AGRICULTURE
FOREIGN AGRICULTURAL SERVICE
WASHINGTON, D.C. 20250

SEP 13 1965

Mr. Joseph Lippman
Assistant Director
International Operations Division
General Accounting Office

Dear Mr. Lippman:

Thank you for sending us copies of the draft of your proposed report to the Congress on unnecessary transportation costs and loss of commercial agricultural sales due to the expedited signing of sales agreements under Title I, Public Law 480. ***

* * * * *

* [See GAO note.]

As regards the countries described in some detail in the report as to their PL 480 agreements, the report notes that the request presented by Taiwan was communicated to Washington in July 1964. *** [See GAO note]

The American Embassy involved recommended favorable action [on the request.]

The situation as regards the Korean request is different from the others mentioned in the report in that the U. S. Embassy as noted in the report initially recommended in October 1964 that the request be delayed until later in the year. The report notes that the Embassy recommended favorable action on the request towards the end of November 1964.

On the other hand the request was designed to meet wheat and cotton requirements for calendar year 1965 and it is appropriate to sign agreements to meet calendar needs in advance of the beginning of the calendar year. It happened in the case of Korea that the Title I agreement for calendar year 1964 was not signed until March and was supplemented by additional wheat in June. Therefore, Korea's immediate needs for wheat were not pressing. However, from the standpoint of good management it was desirable to have the agreement in effect prior to the beginning of the calendar year.

In addition, the general view was that it would be advantageous from the total standpoint of the U. S. financial support for Korea to sign the Title I agreement prior to January 1, since the ocean freight charges after January 1, would not be borne by Korea in view of its financial position and in view of the large scale aid commitment to Korea, but would be financed out of U. S. foreign assistance to Korea either directly or indirectly. In other words, it was a question of whether the ocean freight charges on the PL 480 agreement would be financed out of the PL 480 appropriation or out of the foreign assistance appropriation. It was felt to be advantageous to continue to finance these charges out of the PL 480 appropriation.

An offsetting benefit to the U. S. balance of payments position was achieved by an increase in the portion of the local currencies set aside for U. S. government uses to 19 percent. This amounted to a saving of \$1.8 million in U. S. balance of payments which is about half the amount of loss estimated in the report.

In considering proposed agreements during the last part of 1964 we examined all proposals carefully in the light of what the law required as well as our understanding of Congressional intent and made judgments as to whether their signature prior to the end of the calendar year was appropriate within the terms of the Congressional action.

In addition, although the legislation did not provide a termination date on the financing of ocean freight on the old terms for agreements entered into prior to December 31, 1964, we voluntarily established such a termination date as being December 31, 1965. For example, in the case of the three-year agreement with Colombia, which was signed on October 8, 1964 and would therefore extend through the calendar year 1966, we judged that it would be inappropriate to continue the financing of the ocean freight on the old basis for the entire period of the old agreement, although it would have been possible in accordance with the law to do so. We, therefore, provided that the financing on the old basis would extend only through calendar year 1965. Also we determined that it would be inappropriate to consider Pakistan's request for a two-year agreement which was presented in November 1964 with the obvious intention of having it signed before December 31, 1964 in order to take advantage of the ocean freight provisions before the new provisions took effect.

We believe that the signing of the Title I agreements during the last 10 days of 1964 for the eight countries mentioned in their report was appropriate within the terms of the Congressional action in all cases in the light of total U. S. Government interest.

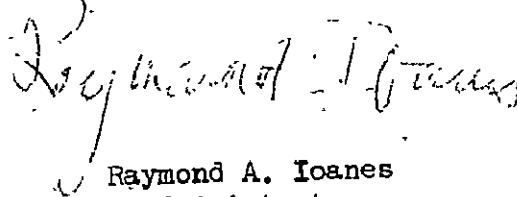
With regard to the recommendation of the report that the President consider delegating more specific responsibilities to the Secretary of the Treasury and the Director of the Bureau of the Budget to give these officials an enhanced role in the decision making process involving Public Law 480 programs, we do feel that the representatives of the Secretary of the Treasury and the Director of the Bureau of the Budget on the Interagency Staff Committee are full fledged members speaking with equal voice with any members of the Committee.

As noted above, in the case of the Korean Government agreement, it was the general feeling of agencies, including the Budget Bureau, that if the ocean freight charges on U. S. flag vessels were not financed out of the

PL 480 appropriation they would have to be financed out of the foreign aid appropriation, given the large U. S. financial commitment to the Government of Korea. Therefore, there was no objection on the part of these agencies to the expedited signing of the PL 480 agreement with Korea.

This Department regards it as its responsibility to insure to the best of its ability that Public Law 480 programs are administered in accordance with the intent of the Congress with particular attention to financial advantages to the United States. We therefore welcome all measures which will enhance the administration of the program as so stated above by the draft report.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Raymond A. Ioanes", is written over a faint, larger handwritten word that looks like "Ioanes".

Raymond A. Ioanes
Administrator

GAO note: Portions deleted were not pertinent to this report.

EXECUTIVE OFFICE OF THE PRESIDENT

BUREAU OF THE BUDGET

WASHINGTON, D.C. 20503

AUG 13 1965

Mr. Oye V. Stovall
Director
International Operations Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Stovall:

This is in response to Mr. Lippman's letter of May 26, 1965, to Kermit Gordon, requesting the comments of the Bureau of the Budget on the draft report entitled "Unnecessary Transportation Costs and Loss of Commercial Agricultural Sales Due to the Expedited Signing of Sales Agreements under Title I, Public Law 480."

We welcome your interest in this subject, because we are actively concerned with both the budgetary and the balance of payments impact of the P.L. 480 program. We feel, however, that full participation in the deliberations of the Interagency Staff Committee provides us with adequate opportunity to exercise our responsibilities in this regard and that a more specific delegation of responsibility from the President, as recommended in the draft report, is not necessary.

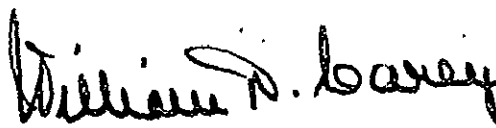
With particular reference to the cases cited in the report, the balance of payments and budgetary costs were taken fully into account. The decision that the United States should relieve the recipient countries of part of the dollar cost of shipping commodities on U.S.-flag vessels was made only after consideration of such offsetting factors as whether the agreements would otherwise not have been signed and whether this provision provided more leverage in negotiating better terms elsewhere in the agreement. Most important is the fact that in every case it probably would have been necessary to meet the foreign exchange costs directly or indirectly through our foreign aid program if they had not been met through P.L. 480. For example, in the case of a Title I agreement signed with Morocco in April of this year, the use of Supporting Assistance funds to finance freight costs was authorized because of Morocco's financial difficulties. Thus, the cost to the United States would not have been reduced had signature of the agreements been postponed until after December 31, 1964.

While the report correctly points out that the agreement with China involves a non-compensatory export level higher than that originally

proposed by the Department of Agriculture, it fails to mention those aspects in which the terms of our P.L. 480 program in that country were made considerably more stringent than they had been in the past. Not only was the 1965 agreement the first time that compensatory requirements were included in the program, but there was a major shift from Title I, repayable in local currency, to Title IV, repayable in dollars at an accelerated rate; and the "usual marketing" requirements in these agreements was increased by an estimated \$24 million, of which the United States will receive a substantial share.

We will continue to evaluate carefully all proposed P.L. 480 agreements to ensure that they best serve total U.S. interest. We appreciate the opportunity to comment upon the draft GAO report on the subject.

Sincerely,



WILLIAM D. CAREY
Executive Assistant Director

PRINCIPAL OFFICIALS
HAVING RESPONSIBILITIES FOR THE MATTERS
DISCUSSED IN THIS REPORT

Appointed or
commissioned

DEPARTMENT OF STATE

SECRETARY OF STATE:

Dean Rusk Jan. 1961

UNITED STATES AMBASSADOR TO THE REPUBLIC OF KOREA:

Winthrop G. Brown Aug. 1964

UNITED STATES AMBASSADOR TO THE REPUBLIC OF CHINA:

Jerauld Wright June 1963

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR:

David E. Bell Dec. 1962

DIRECTOR, UNITED STATES OPERATIONS MISSION TO THE
REPUBLIC OF KOREA:

Joel Bernstein July 1964

DIRECTOR, UNITED STATES AGENCY FOR INTERNATIONAL DE-
VELOPMENT MISSION TO THE REPUBLIC OF CHINA:

Howard L. Parsons (note a) July 1962

DEPARTMENT OF AGRICULTURE

SECRETARY OF AGRICULTURE:

Orville L. Freeman Jan. 1961

ADMINISTRATOR, FOREIGN AGRICULTURE SERVICE:

Raymond A. Ioanes Apr. 1962

^a Transferred on February 11, 1965, coincident with the phasing out of the mission.